

2013 SAD Training

# Legislative Audit Division Reports Policy

MOM Policy 373

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# Scope of Policy

- Financial Schedules and Notes – Sections 3 through 5:
  - Agencies who do not prepare separately issued GAAP financial statements
- Agency Responses to LAD – Section 6A:
  - All agencies and institutes, excluding community colleges
- Agency OBPP Submission – Section 6B:
  - All state agencies

# Nonaudit Services

- Generation of financial schedules provided by LAD is a nonaudit service
- For LAD to remain independent agency management must:
  - Assume all management responsibility of this service
  - Be able to effectively oversee this service

# Effective Oversight

- Agency management designates an individual who:
  - Possesses suitable skill, knowledge or experience **and**
  - Understands the nonaudit service being performed sufficiently enough to oversee it

# Management Responsibility

- Management responsibility includes:
  - Ability to evaluate the adequacy and results
  - Preparation of the related note disclosures

# Financial Schedules

- ◉ Schedule of Changes in Fund Equity & Property Held in Trust
- ◉ Schedule of Total Revenue & Transfers-In
- ◉ Schedule of Total Expenditures & Transfers-Out

# Note Disclosures

- Agency management is responsible for creating note disclosures
- Completed note disclosures should be submitted to LAD to be included in the audit process
- Note disclosure template can be obtained directly from SAD

# Note Disclosure #1

- ◉ Summary of Significant Accounting Policies
  - ◉ Basis of Accounting and Application of Basis by fund category
    - ◉ Governmental Funds
      - ◉ Modified Accrual
    - ◉ Proprietary and Fiduciary Funds
      - ◉ Full Accrual



# Note Disclosure #1

## Basis of Accounting

### Governmental Funds

- The (department, board, office, council) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the (department, board, office, council) records:
- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the (department, board, office, council) to record the cost of employees' annual and sick leave when used or paid.

# Note Disclosure #1

## Basis of Accounting

### Proprietary and Fiduciary Funds

- The (department, board, office, council) uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, Investment Trust, Pension and Other Employee Benefit Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the (department, board, office, council) records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.
- Expenditures and expenses may include: entire budgeted service contracts even though the (department, board, office, council) receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

# Note Disclosure #1 (cont.)

- Summary of Significant Accounting Policies
  - Basis of Presentation by fund type
    - General Fund
    - State Special Revenue Fund
    - Federal Special Revenue Fund
    - Debt Service Fund
    - And so on and so on, including proprietary and fiduciary fund types

# Note Disclosure #1

## Basis of Presentation

- The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. (Consequently, these schedules do not agree in all cases to final state accounting system summary reports. These differences are explained in Note xx.)
- The (department, board, office, council) uses the following funds:
  - Specific language for each different fund type included in template

# Note Disclosure #2

- General Fund Balance
  - Negative Balances language
  - Positive Balances language

# Note Disclosure #2 (cont.)

## Negative Balances

- The negative fund balance in the General Fund does not indicate overspent appropriation authority. The (department, board, office, council) has authority to pay obligations from the statewide General Fund within its appropriation limits. The (department, board, office, council) expends cash or other assets from the statewide fund when it pays General Fund obligations. The (department's, council, etc.) outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2XXX and June 30, 2XXX.

# Note Disclosure #2 (cont.)

## Positive Balances

- The (department, board, office, council) has authority to pay obligations from the statewide General Fund within its appropriation limits. The (department's, council, etc.) total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the fiscal years ended June 30, 20XX, and June 30, 20XX. These balances reflect the results of the activity of the (department, board, office, council) and not the fund balance of the statewide General Fund.

# Note Disclosure #3

- ◉ Direct Entries to Fund Equity
  - ◉ Shared funds language
  - ◉ Prior period, change in accounting principle, retroactive GASB statement implementation language



# Note Disclosure #3 (cont.)

## Shared Funds

- Direct entries to fund equity in the (General, Special Revenue, Federal Special Revenue Fund, Debt Service, Capital Projects, Internal Service, Enterprise,...) fund(s) include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

# Note Disclosure #3 (cont.)

## Other Direct Entries

- Direct entries to fund equity in the (General, State Special Revenue, Federal Special Revenue Fund, Debt Service, Capital Projects, Internal Service, Enterprise,...) funds also include: (correction of an error from a previous period that occurred at least two fiscal years prior; change in accounting principle, or a change in the application of an accounting principle; or retroactive change mandated by the GASB in conjunction with the implementation of a new pronouncement).

# Agency Response

- ◉ Previously included in Management Memo (MM) 2-05-02
- ◉ Requires a written response to each recommendation included in audit report
- ◉ Requires a concise Corrective Action Plan (CAP) for some recommendations

# Reasons for Response

- Establish a formal procedure related to MCA 2-7-103
  - **2-7-103. Review of executive branch by governor.** The office of the governor shall continuously study and evaluate the organizational structure, management practices, and functions of the executive branch and of each agency. The governor shall, by executive order or other means within the authority granted to the governor, take action to improve the manageability of the executive branch.
- Necessary for OBPP to prepare the corrective action plan and summary of prior audit findings section for the Montana Single Audit Report

# Who is responsible for the response?

- Agency Directors or their deputy-level designees

# Agency Response Definitions

- Concur
- Conditionally concur
- Do not concur

# Concur

- Agency management agrees with the substance of the legislative audit report recommendation and will implement the recommendation

# Conditionally Concur

- Agency management agrees with the substance of the legislative audit report recommendation but cannot fully implement the recommendation because of:
  - Insufficient resources
  - Unalterable time constraints
  - Other documented justifications



# Do Not Concur

- Agency management may or may not agree with the audit findings, does not agree with the legislative audit report recommendation and will not implement that recommendation for specific, documented reasons

# Corrective Action Plan (CAP)

- For recommendation an agency either concurs or conditionally concurs with
- Includes implementation date
- Initial CAP considered preliminary

# OBPP Submission Requirements

- Agency response
  - Within 30 days of Leg Audit Committee Hearing
- Annual corrective action report
  - Every August
- Status of all audit findings and questioned costs
  - Every other August

# OBPP - Agency Response

- Agency's response to each audit recommendation
- Documentation for conditional and non-concurrence agency responses
- Final Corrective Action Plan
  - Auditor Recommendation Number
  - Name of the Agency Contact Person
  - Plan for implementation
  - Target date for implementation
  - Indication if CAP has been modified since submitted to LAD

# OBPP – Annual Corrective Action Report

- To be submitted annually until the agency director certifies that all concurred and conditionally concurred audit recommendations have been implemented
  - Auditor's recommendation number
  - Agency contact
  - Plans for implementation
  - Status of implementation
  - Justification for missed implementation dates

# OBPP – Status of all audit findings and questioned costs

- To be submitted on a biennial basis
  - State agency name
  - Auditor's recommendation number
  - Federal program name & CFDA
  - Nature of finding
  - Initial year of occurrence
  - Status of the corrective plan